



Q 4 | 2020



The Colony Group

# Investing with Values

# Q4 2020 Observations

The United Nations Sustainable Development Goals (SDGs) are a collection of global goals that seek to integrate and balance the three key areas of sustainable development: economic, social, and environmental. In a larger sense, the SDGs are a call to action to end poverty and hunger, prevent the planet from degradation, ensure that all people enjoy prosperous and fulfilling lives, and foster peaceful, just, and inclusive societies. As many believe that the Biden administration seeks to renew trust and improve US international engagement and cooperation, it may elect to embody the spirit and objectives of the SDGs.

*Recently, the **Brookings Institute** surmised that one of the administration's key initiatives will be an "alignment of U.S. development policy objectives and assessment of impact with the Sustainable Development Goals (SDGs)."*

Here, we review the SDGs in more detail and discuss how investors can participate in the achievement of the SDGs, thereby potentially realizing both impact and financial objectives.

The SDGs were an integral part of the UN's 2030 Agenda for Sustainable Development and were adopted by all UN Member States in 2015. They are organized into 17 goals that address key objectives such as Good Health and Well-being, Affordable and Clean energy, Reducing Inequality, and Responsible Consumption and Production. These goals are further divided into 169 more specific targets. For example, SDG 12, Responsible Consumption and Production, includes the specific objectives of substantially reducing waste generation, sustainably managing and using natural resources, and halving global per capita food waste. SDG 10, Reducing Inequality, includes ensuring equal opportunities and ending discrimination and responsible and well-managed migration policies.

Investors can help support the achievement of the SDGs in a number of ways. Many sustainable funds, particularly thematic funds, will align their research processes or portfolio holdings with the SDGs, a process often referred to as mapping. For example, in 2018 the Allianz GI Water Fund aligned itself to the SDGs and underlying targets. The companies owned by the fund collectively map to four goals, such as SDG6 Clean Water and Sanitation, and 12 targets including improving water quality and emerging markets infrastructure. The Pax Global Environmental Markets Fund estimates the fund's holdings have just under 60% revenue exposure to five target areas such as SDG 7 Affordable and Clean Energy. In addition, alignment with the SDGs is certainly not confined to investing in global equities. Sustainable fixed income funds can provide an appropriate way to participate as well. The TIAA-

## Sustainable Development Goals

17 GOALS TO TRANSFORM OUR WORLD



SOURCE: UN.org

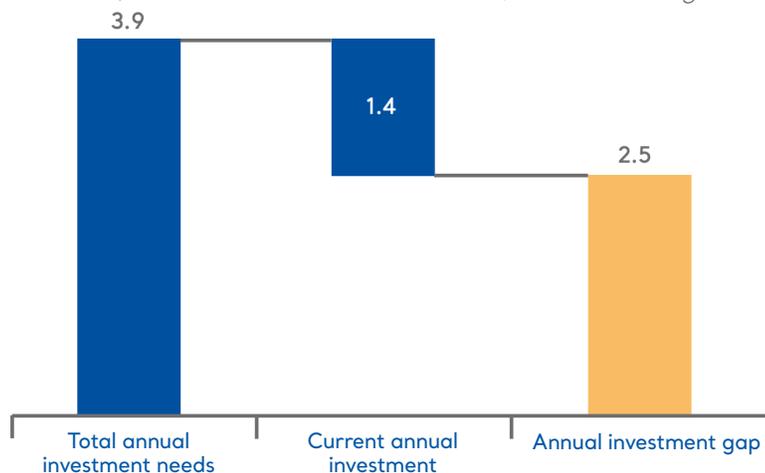
CREF Core Impact Bond fund uses an SDG-aligned framework that focuses on four areas of impact—affordable housing, community development, renewable energy, and climate and natural resources. Other fixed income funds may dedicate strategic allocations to social and/or green bonds.

While mapping investments to the SDGs can help investors realize both impact and values alignment objectives, there are also potential financial benefits as well. Achieving many of the goals, such as SDG 13 Climate Action and SDG 11 Sustainable Cities and Communities requires substantial spending and investment. The [Task Force on Climate Related Financial Disclosure](#) estimates that transitioning to a low-carbon economy will require investment of around \$1 trillion per year for the indefinite

future. When the SDGs were adopted in 2015, it was estimated the **annual investment shortfall** covered by the SDGs over the following 15-year period was \$2.5 trillion—and this only covered developing countries. Companies that are addressing and providing solutions to achieve these goals may be capturing attractive, long-term financial opportunities. Think of the potential, long-term earnings advantage companies involved in energy efficiency, water access, food security, sustainable transport, and real estate may experience.

More investors are embracing the UN SDGs as a framework for targeting and evaluating the impact of their capital. The Biden administration may follow suit as it looks to accelerate spending and investment in critical areas. This actionable framework may be a good way for investors to realize three primary objectives of sustainable investing—values alignment, social and environmental impact, and competitive financial returns.

Figure 1 Estimated annual investment needs in key SDG sectors, 2015-2030 (trillions of dollars, annual average)



SOURCES: UNCTAD, World Investment Report 2014

## Introducing The Colony Sustainable Focus Strategy

We are excited to introduce a new individual stock strategy to complement the Colony Group’s Sustainable Investing Solutions platform. The objective of the Colony Sustainable Focus strategy led by [Jacques R. Elmaleh, CFA](#), is to generate competitive long-term returns with a portfolio of above average companies based on ESG factors.

The portfolio consists of 30-40 stocks diversified across market capitalizations and sectors and seeks to select companies emphasizing corporate governance, environmental concerns, and social issues with favorable long-term fundamentals. By leveraging investment research from other Colony Group strategies, we can identify companies that embody the values consistent with sustainable investing. These may include industry leaders on ESG issues, overall good corporate actors, and thematic companies addressing a distinct societal need. Particular attention is paid to the UN Sustainable Development Goals and how a company’s activities may address them. Most companies in this strategy are expected to be domestic with some exposure to strong global leaders in this category.

### Top Six Represented SDGs<sup>1</sup>



<sup>1</sup>By percentage of Sustainable Focus disclosure metrics per SDG. Source: Bloomberg

The research process includes evaluating a company's overall commitment to addressing a societal need beyond the profit motive. Environment, social, and governance issues require a long-term mindset by management to tackle risks that do not fit in the quarterly earnings reporting timeframe. We find that management teams that consider all stakeholders generally have demonstrated strong long-term results. Our process evaluates both quantitative and qualitative factors in determining whether a company makes the cut to be included in this portfolio.

In keeping with the values of sustainable investing, this strategy practices active ownership and votes all proxies. To invest in Colony's Sustainable Focus strategy, **a separate brokerage account is required**. Client reporting is expected to illustrate periodic highlights of portfolio company impact and progress on goals.

# Sustainable Investing in Action

## FINANCIAL

- › 68% of sustainable equity funds ranked in the top halves of their categories during the first three quarters of 2020.
- › 25 of 26 sustainable index funds outperformed the comparable conventional index fund.
- › Sustainable funds in the US attracted \$30.7 billion in net flows through 9/30/2020, exceeding the previous record set for all of 2019.

## ENGAGEMENT

- › Calvert Investments was a founding signatory to the Net Zero Asset Managers initiative. As a signatory, Calvert commits to support investing aligned with net zero emissions by 2050 or sooner.
- › Impax Asset Management, investment adviser to Pax World Funds, and the New York State Common Retirement fund petitioned companies in the S&P 500 to increase disclosure on the locations of their assets whose loss or impairment would impact financial results.
- › In 2020, Boston Trust Walden contacted 100 portfolio companies to foster greater board diversity and disclosure. Early results include nineteen companies adding 15 women and 8 people of color, and 8 companies committing to include women and people of color in board candidate pools.

## CORPORATE RESPONSIBILITY

- › As part of its Digital Inclusion commitment, Verizon donated mobile hotspots equipped with data plans to 20,000 students in New York City to support remote learning.
- › AT&T is offering 2,300 scholarships to online learning academies to further empower underserved communities with educational opportunities. The initiative is part of AT&T Believes, an effort focused on promoting social equality throughout the US.
- › Accenture will reduce scope one and two emissions by 65% by 2025 from its 2016 baseline. Further, all of its facilities will source their energy from renewable sources by 2023.

*SOURCE: Morningstar, Just Capital, and engagement reports & publicly available information from funds*

# Colony Investing Solutions

Some statistics of interest from The Colony Group's Sustainable Investing Solutions equity portfolio:

**0%**  
Tobacco Exposure

**<0.5%**  
Fossil Fuel Exposure

**54% Less<sup>2</sup>**  
Direct CO2 Emissions\*

**34% Less<sup>2</sup>**  
GHG Scope 1 Intensity Per Sales\*\*

**10% More<sup>2</sup>**  
% of Minorities in the Workforce

<sup>2</sup>Relative to MSCI All Country World Index

\*Direct CO2 Emissions are direct emissions from sources that are owned or controlled by a corporation

\*\*GHG Scope 1 Intensity Per Sales.

Metric tonnes of greenhouse gases in carbon dioxide equivalent (CO2e) emitted from direct operations per million of sales revenue



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*For more information about Colony's Sustainable Investing Solutions, please reach out to your wealth advisor or contact us at [info@thecolonygroup.com](mailto:info@thecolonygroup.com).*

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